



## MEMORANDUM

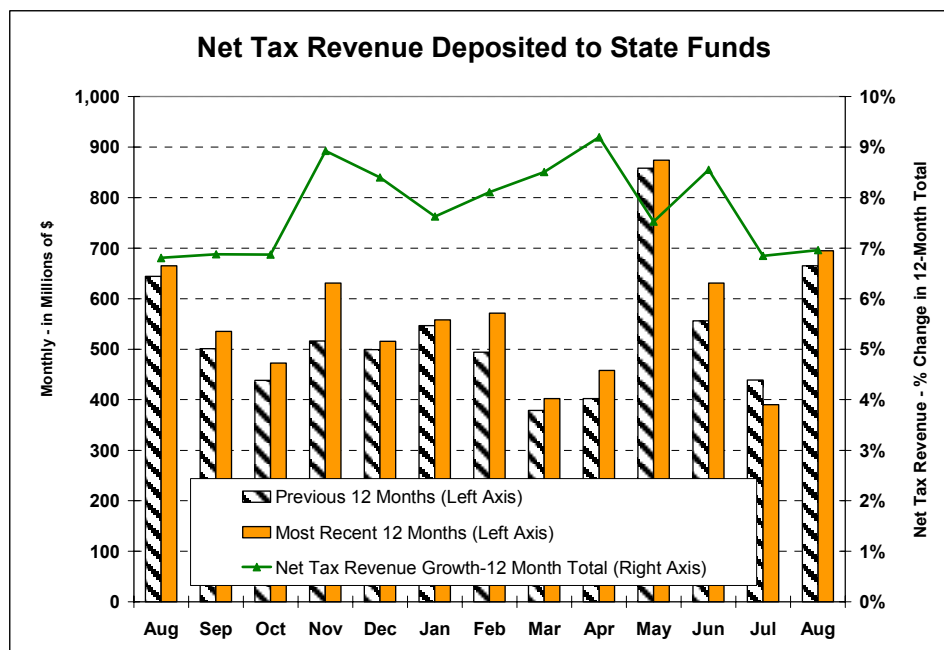
TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives

FROM: Jeff Robinson  
 Shawn Snyder

DATE: September 29, 2008

### Twelve-month Total Net Tax Receipts Through August 31, 2008

The attached spreadsheet presents net State tax receipts for the 12-month period ending August 2008 with comparisons to the previous 12 months. August 2008 to August 2007 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes.



### Month of August Comparison

August net tax receipts totaled \$695.0 million, an increase of \$29.9 million (4.5%) compared to August 2007. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$18.2 million, 7.8%) – Gross receipts were up \$22.2 million while Income Tax refunds were \$4.0 million higher for the month. August Individual Income Tax receipts were impacted by a tax due-date issue that boosted the month's receipts by approximately \$10.0 million. This issue will reverse in September.
- Corporate Income Tax (positive \$4.9 million) – Gross receipts increased \$3.8 million and refunds decreased \$1.1 million.
- Sales/Use Tax (positive \$20.1 million, 7.1%)
  - Road Use Tax Fund Use Tax deposits increased \$5.1 million for the month and Use Tax deposited to the Underground Storage Tank (UST) Program decreased \$4.2 million. The large increase for the Road Use Tax Fund and the decrease for the UST Program are related to recent changes to the Motor Vehicle Use Tax and to UST Program funding.
  - General Fund Sales/Use Tax receipts increased \$49.3 million. Refunds issued for the month increased \$30.1 million. The large increases in gross receipts and in refunds are related to the recently-enacted Statewide Sales/Use Tax increase for school infrastructure coupled with the elimination of the local Option Sales Tax for school infrastructure. This change boosts State Sales/Use Tax receipts while increasing tax refunds by a similar amount, as the school infrastructure revenue is being removed from the State General Fund through a refund appropriation.
- Fuel Tax (negative \$1.4 million, - 4.0%) – Gross Fuel Tax revenue decreased \$1.7 million while refunds processed in the month decreased \$0.3 million.
- Cigarette & Tobacco Taxes (negative \$5.0 million, - 18.8%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased. The August decrease reverses a similar sized July increase, indicating the July increase was likely a deposit timing issue. Since reaching the one-year anniversary of the tax rate increase four months ago, the revenue trend has been slightly negative.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending August 2008, net revenue from all taxes deposited to State funds totaled \$6.734 billion, an increase of \$438.5 million (7.0%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$196.9 million, 7.3%) – Individual Income Tax receipt growth has generally been strong over the past year, but the rate of increase has declined since April's peak of 11.8%.
- Corporate Tax (positive \$27.9 million, 8.5%) – Corporate Tax has shown strong growth since 2003. The rate of growth has tapered off over the last ten months.
- Sales/Use Tax (positive \$118.7 million, 5.6%) – Despite high gas prices, declining home equity withdrawals and reduced home construction, General Fund Sales/Use Tax receipts continue to show significant year-over-year strength.
- Motor Fuel Tax (negative \$6.2 million, - 1.4%) – Net Motor Fuel Tax revenue has been weak the past eight months, likely the result of higher fuel prices reducing the growth in fuel demand.
- Gambling Tax (positive \$11.2 million, 4.0%) – The new Waterloo casino and changes to the Clinton casino are boosting year-over-year statewide Gambling Tax growth. According to Racing and Gaming Commission statistics, seven of Iowa's seventeen casino operations

reported negative adjusted gross revenue growth over the most recent 12-month period compared to the previous period.

- Cigarette and Tobacco Tax (positive \$87.7 million, 54.0%) – Over the next eight months, the year-over-year rate of revenue increase will continue to decline as the second anniversary of the increase approaches.
- Insurance Premium Tax (positive \$8.2 million, 8.2%) – The Insurance Premium Tax rate was reduced over multiple years and is now fully implemented.

### **Tax Spotlight – Corporate Income Tax**

Corporate Income is taxed under the authority of Chapter 422, Division III, Code of Iowa. The Tax is imposed on the net income of corporations doing business in Iowa or receiving income from property located in Iowa. Taxation of corporate income by the State of Iowa is based on the share of total company sales occurring within Iowa (single factor formula). Corporate Income Tax rates are applied as follows:

- Six percent on the first \$25,000 of net income
- Eight percent on the next \$75,000
- Ten percent on the next \$150,000
- Twelve percent on amounts above \$250,000

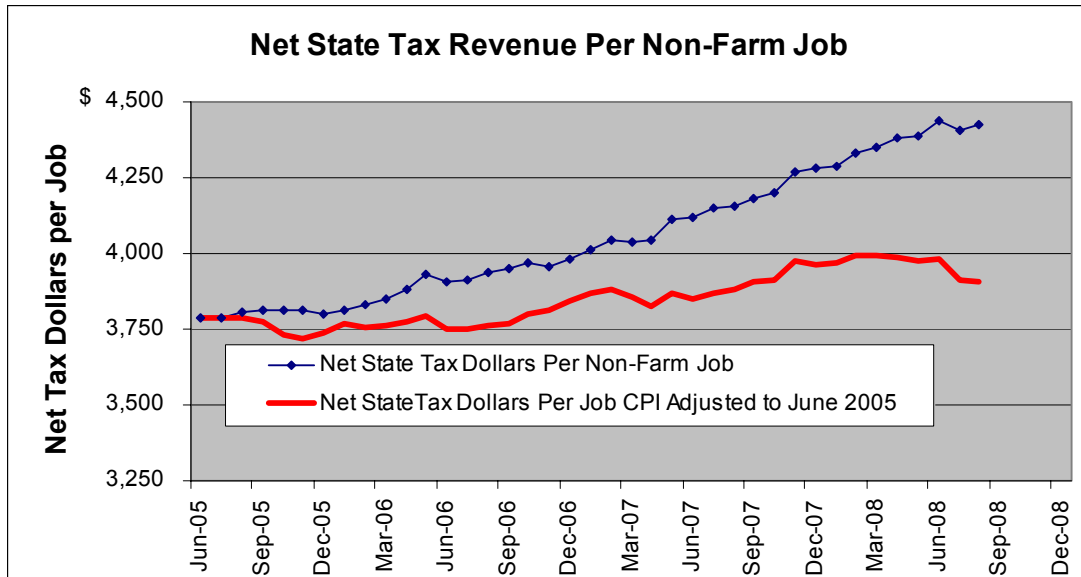
An alternative minimum tax may be imposed at an effective rate of 7.2% if it exceeds the corporation's regular tax liability. Iowa is similar to most states using the federal corporate taxable income of a corporation as the basis for Iowa Corporate Income Tax. Iowa allows for the deduction of 50.0% of federal Corporate Income Tax paid prior to calculating State Corporate Income Tax liability.

The Iowa Corporate Income Tax was first imposed in 1934 at a single rate of 2.0% with the passage of HF 1 (Income, Corporation, and Sales Tax Act). The rate remained at 2.0% until 1955 when it was increased to 3.0%, decreased to 2.0% in 1957, increased again to 3.0% in 1959, and increased to 4.0% in 1965. With the passage of HF 702 in 1967, the Corporate Income Tax rate was changed from a single rate to varying rates at different income levels starting at 4.0% on the first \$25,000, 6.0% on the next \$75,000, and 8.0% for amounts above \$100,000. In 1971, HF 654 increased the rates 2.0 percentage points (6.0%, 8.0%, and 10.0%). The current Corporate Income Tax rates and income levels were approved in HF 2171 (Taxation Act of 1982).

Corporate tax returns are filed by the last day of the fourth month following the end of the corporation's tax year. Cooperatives (as defined by the Internal Revenue Code) are to file a return by the 15th of the ninth month after the end of the cooperative's tax year. Nonprofit corporation returns are due by the 15th of the fifth month after the end of the nonprofit corporation's tax year. Most corporations are required to make estimated tax payments quarterly. All Corporate Income Tax revenues are deposited in the State General Fund.

## Tax Revenue and Employment

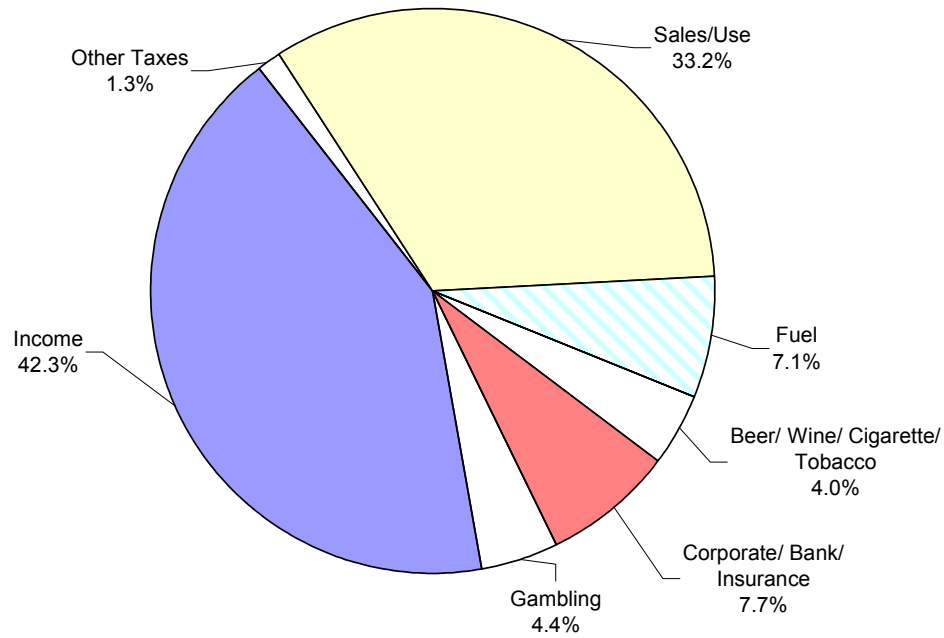
The average reading for Iowa non-farm employment over the 12 months ending August 2008 is 1,512,500, and net State tax receipts over the same 12 months totaled \$6.734 billion, or \$4,423 per non-farm job. This is \$638 (16.8%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 12.6%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.3% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending August 2008

**Net Revenue = \$6.734 Billion**

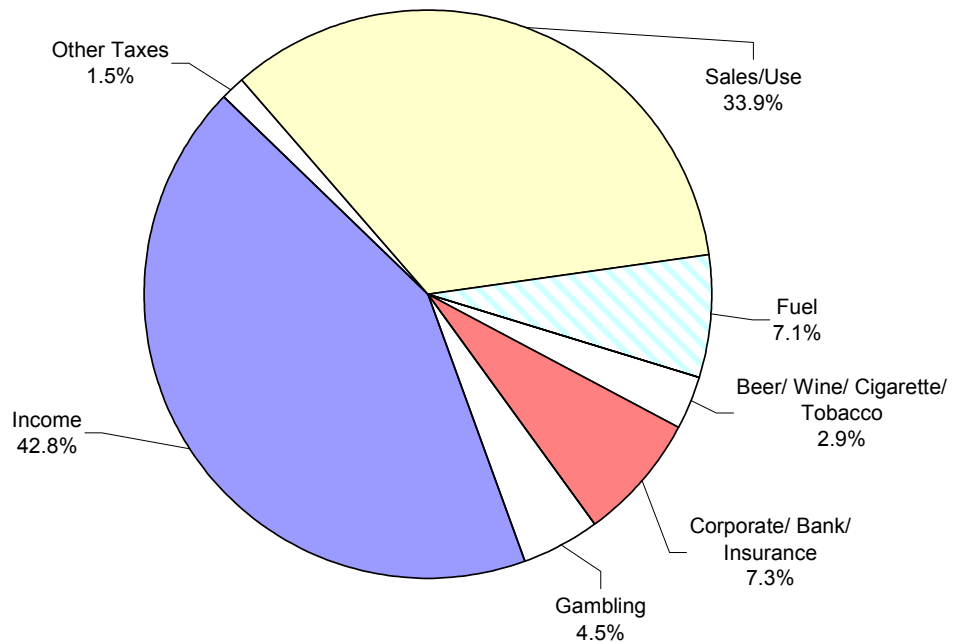
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending August 2007

**Net Revenue = \$6.296 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of August 2007	Month of August 2008	August \$ Change	August % Change
Banking	\$ 32.6	\$ 33.7	\$ 1.1	3.4%	\$ 0.0	\$ 0.1	\$ 0.1	0.0%
Beer & Wine	20.4	20.8	0.4	2.0%	1.8	2.0	0.2	11.1%
Cigarette & Tobacco	162.3	250.0	87.7	54.0%	26.6	21.6	- 5.0	-18.8%
Corporate Income	327.5	355.4	27.9	8.5%	- 5.7	- 0.8	4.9	-86.0%
Fuel	447.3	441.1	- 6.2	-1.4%	35.0	33.6	- 1.4	-4.0%
Gambling	282.4	293.6	11.2	4.0%	29.0	24.3	- 4.7	-16.2%
Individual Income	2,691.6	2,888.5	196.9	7.3%	232.9	251.1	18.2	7.8%
Inheritance	75.4	78.9	3.5	4.6%	6.2	8.4	2.2	35.5%
Insurance	99.4	107.6	8.2	8.2%	51.1	46.2	- 4.9	-9.6%
Other Taxes	3.0	- 6.4	- 9.4	-313.3%	1.9	2.3	0.4	21.1%
Real Estate Transfer	18.4	16.9	- 1.5	-8.2%	1.7	1.5	- 0.2	-11.8%
Sales/Use	2,135.6	2,254.3	118.7	5.6%	284.6	304.7	20.1	7.1%
<b>Total Net Taxes</b>	<b>\$ 6,295.9</b>	<b>\$ 6,734.4</b>	<b>\$ 438.5</b>	<b>7.0%</b>	<b>\$ 665.1</b>	<b>\$ 695.0</b>	<b>\$ 29.9</b>	<b>4.5%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 6,957.1	\$ 7,493.0	\$ 535.9	7.7%	\$ 705.2	\$ 767.5	\$ 62.3	8.8%
Tax Refunds	\$ - 661.1	\$ - 758.8	\$ - 97.7	14.8%	\$ - 40.1	\$ - 72.6	\$ - 32.5	81.0%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,338.5	\$ 5,769.9	\$ 431.4	8.1%	\$ 599.9	\$ 629.8	\$ 29.9	5.0%
Road Use Tax Fund	\$ 699.3	\$ 707.1	\$ 7.8	1.1%	\$ 57.5	\$ 61.1	\$ 3.6	6.3%
Non-GF Gambling	\$ 220.7	\$ 236.1	\$ 15.4	7.0%	\$ 1.8	\$ 1.5	\$ - 0.3	-16.7%
Other State Funds	\$ 37.4	\$ 21.2	\$ - 16.2	-43.3%	\$ 5.9	\$ 2.5	\$ - 3.4	-57.6%
<b>Local Option Taxes *</b>	<b>\$ 671.0</b>	<b>\$ 757.1</b>	<b>\$ 86.1</b>	<b>12.8%</b>	<b>\$ 56.3</b>	<b>\$ 60.2</b>	<b>\$ 3.9</b>	<b>6.9%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## **Tax Categories Used in Table**

**Franchise (Bank) Tax:** Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All Corporate Tax is deposited to the State General Fund.

**Motor Vehicle Fuel Tax:** All Motor Vehicle Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All Inheritance Tax is deposited to the State General Fund.

**Insurance Premium Tax:** All Insurance Premium Tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

**Real Estate Transfer Tax:** Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

**Sales/Use Tax:** General Sales/Use Tax is deposited to the State General Fund, while most Vehicle Use Tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the Vehicle Use Tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) Sales Tax was converted to a statewide 1.0% Sales/Use Tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net Sales/Use Tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, Local option taxes included the SILO Tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax. Starting FY 2009, the SILO Tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the Local Option Tax amount.

## **Report Database**

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.